RAJYA SABHA

Tuesday, 3rd December, 1996/12th Agrahayana 1918 (Saka)

The House met at eleven of the clock, **Mr. Chairman** *in the Chair*

MEMBERS SWORN

1. Shri Dara Singh Chauhan (Uttar Pradesh)

2. Shri Khan Gufran Zahidi (Uttar Pradesh)

ORAL ANSWERS TO STARRED QUESTIONS

Branch of Cochin Stock Exchange Functioning in Thiruvananthapuram

*161. SHRI VAYALAR RAVI: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that one branch of Cochin Stock Exchange is functioning in Thiruvananthapuram;

(b) if so, whether SEBI has given its approval for it; and

(c) if not, under what authority it is functioning?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) to (c) A statement is laid on the Table of the House.

Statement

(a) The Cochin Stock Exchange does not have a branch at Thiruvananthapuram. However, an Investor Service Centre set up by the Exchange is functioning at Thiruvananthapuram.

(b) The Investor Service Centre has been approved by the Securities and Exchange Board of India (SEBI) in January, 1995.

(c) Does not arise in view of reply to) above.

SHRI VAYALAR RAVI: Mr. Chairman, the Investor Service Centre which has been set up at Thiruvananthapuram is a new terminal instead of a branch. This is a wrong decision taken by the SEBI. It was decided to allow the National Stock Exchange as well as the Bombay Stock Exchange to operate all over the country, opening branches or terminals. There are no conditions. They can go to any part, any region. A major change has been made. This is in spite of the scam and the subsequent report of the JPC on it. This is a very serious development. Even there, there is discrimination. The National Stock Exchange can open a branch anywhere in the country; Trivandrum or Cochin or anywhere. On the other hand, the Bombay Stock Exchange has to enter into a Memorandum of Understanding with the Regional Stock Exchange.

Sir, in this process—because of this change—the Regional Stock Exchanges would be killed. These two giants—the National Stock Exchange and the Bombay Stock Exchange—are competing with each other. Not only that. They are competing with the Regional Stock Exchanges also. This is a chaotic situation.

As you know, Sir, the JPC said about the Bombay Stock Exchange that it was functioning as a private club of brokers. There is no enforcement of the law. There is lack of financial management. The operation is chaotic. A lot of things have been said. If this is the position, I would like to know from the hon. Minister as to why this change was made in the rules, allowing these two giants—the National Stock Exchange and the Bombay Stock Exchange—to go all over the country. I would also like to point out here that one terminal is selling at Rs. 10 million.

Therefore, I would like to know as to why, in spite of the JPC report on the securities scam, this basic change has

been made which, as I said, would only kill the Regional Stock Exchanges. Secondly, in view of the competition between the Bombay Stock Exchange and the National Stock Exchange, what steps you are going to take to regulate the market? Why have you made this kind of an arrangement?

SHRI. P. CHIDAMBARAM: Sir, this question and the answer that I furnished deal with the Investor Service Centre set up by the Cochin Stock Exchange. It is not an on-line trading facility with the Bombay Stock Exchange or the National Stock Exchange.

Sir, the Cochin Stock Exchange has been allowed to set up an Investor Service Centre in Thiruvananthapuram. Permission was granted on 27th January, 1995, subject to a number of conditions. The object of establishing this centre is for investor education and seminars, library facilities, supplying application forms on new public issues made by big companies and display of share prices of the National Stock Exchange through television.

The supplementary deals with a completely different subject. On-line trading has now been allowed by the SEBI, subject to a number of conditions. But if the Bombay Stock Exchange wishes to have on-line trading with a city where there is already a Regional Stock Exchange, it can only do so after entering into a Memorandum of Understanding with that Regional Stock Exchange. The Bombay Stock Exchange must have a Memorandum of Understanding with the Regional Stock Exchange.

SHRI VAYALAR RAVI: What about the Natioal Stock Exchange?

SHRI. P. CHIDAMBARAM: The National Stock Exchange is screen-based trading. The NSE has been set up as a National Stock Exchange. It is not city-based or region-based. The NSE is intended to be a National Stock Exchange. If you want it to function as a National Stock Exchange, surely, one must be able to trade with NSE from anywhere. Otherwise, it ceases to be a National Stock Exchange.

SHRI VAYALAR RAVI: Sir, the National Stock Exchange as well as the Bombay Stock Exchange are governed by the same regulations. They are both regulated by the SEBI. The Bombay Stock Exchange can operate throughout India. It operates throughout the nation. Of course, the National Stock Exchange also operates throughout the country. The Minister says that it is intended to be so. I do not agree with his explanation.

The point I want to make here is that the Regional Stock Exchanges—particularly, the Cochin Stock Exchange—are facing a severe crisis because the settlement schedule is different from region to region. On the other hand, the Bombay Stock Exchange and the National Stock Exchange have a different settlement schedule. There are different clearing houses. I would like to know from the hon. Minister as to why he is allowing this kind of an arrangement, or, this kind of an expansion of these two major stock exchanges. In that process, the Regional Stock Exchange may be killed; the Regional Stock Exchanges may be in difficulty. Therefore, would the hon. Minister ask the SEBI to have the same settlement schedule all over the country and also a common clearing house? This way, at least, the Regional Stock Exchanges would be able to survive. I would like to know whether there would be a uniform settlement schedule and a common clearing house so that the Regional Stock Exchanges could, at least, survive. Otherwise, what would happen is that the big fish would swallow the small fish. I would like to know from the hon. Minister whether he would give this direction to the SEBI.

SHRI. P. CHIDAMBARAM: Sir, I do not share the pessimism of the hon. Member.

SHRI VAYALAR RAVI: It is not pessimism, it is a fact.

SHRI. P. CHIDAMBARAM: I do not share his pessimism that the Regional Stock Exchanges would be killed by the National Stock Exchange.

Sir, a conscious decision was taken not to circumscribe the operation of the National Stock Exchange. A conscious decision was taken to create a separate National Stock Exchange. Therefore, the NSE is functioning as a National Stock Exchange.

I believe, the Bombay Stock Exchange would not, in any way, kill any Regional Stock Exchange. As I said, a Memorandum of Understanding is necessary if the Bombay Stock Exchange want to have on-line trading with a city where there is already a Regional Stock Exchange. I think, eventually, the market would integrate into one market and exchanges would have to deal with each other. But I would pass on the suggestion of the hon. Members to SEBI for consideration at its next meeting.

SHRI ASHOK MITRA: My friend, Shri Vayalar Ravi, is worried about the functioning of a stock exchange which, he thinks, tought not to function. My concern is some what less. It is about the general non-functioning of the stock exchanges all over the country. Continuously for the past few months the share prices are declining. There is dull trading. If you take the average quotation, it has come down by something like 60 per cent over to year.

I wish we could have a statement from the Finance Minister, analysing the factors which underline this collapse of the securities in the stock-exchange system in the country. If he cannot make a statement today, we will be most grateful if such a statement could be forthcoming before we close on the 20th.

SHRI. P. CHIDAMBARAM: Sir, I have not come across anyone so far who fully understands and explains why stock markets in the world behave in a particular manner at a particular time. We have tried to understand why market sentiment is driving down the stock market. I have held two rounds of meetings with stock-brokers, merchant bankers, institutional investors and individuals. We have responded to many of their concerns. While replying to the debate on the budget, I announced a set of measures, and the SEBI announced a set of measures some time later. We have responded to most of their concerns. But I find that the small investor is staying away from the market for a variety of reasons. Perhaps there are other instruments which are more attractive. Perhaps he does not have enough confidence in new issues.

While I will continue to interact with the main players in the stock market and will try to find answers, I am not in a position now to make a statement on why the stock markets or sensex have dipped so low. In January this year it touched an all-time low of 2820. In June it rose to over 4000. It is now back to 2840. As I said, it is the sentiment which drives the market. Once the players in the market are able to assure the retail investor, the small investor that his money is safe and that the returns will be adequate, attractive and comparable to returns in other instruments, the small investor will come back to the market. We are addressing the issue, but I am not in a position to make a detailed statement on this.

SHRI SANJAY DALMIA: Sir, in view of the desirability of giving an opportunity to small investors to invest, it is necessary to have more and more stock exchanges throughout the length and breath of the country, but because of the peculiar situation where the SEBI requirement is that stock exchanges should be locally financed, many stock exchanges are not able to come up in different parts of the country.

So, my specific question to the hon. Finance Minister is that in view of this situation whether there can be some kind of a subsidy through the SEBI to open stock exchange throughout the country,

to start with, and once they come up to a certain level, that subsidy can be withdrawn gradually. What will be the reaction of the Finance Minister to this suggestion?

SHRI. P. CHIDAMBARAM: How can the SEBI subsidise stock exchanges? Then how will the SEBI itself be subsidised? I don't think that subsidy is an answer. If there is enough investor interest in a city or a town and there is a demand for a stock exchange, I think, it will express itself. They will apply to the SEBI, and the SEBI will consider that application. I don't think that it is proper for me to answer on behalf of the SEBI or to suggest that the SEBI should subsidise stock exchanges.

SHRI. R.K. KUMAR: I want to know from the hon. Minister whether there is any proposal to make a comparative study of what was happening when the Controller of Capital Issue was in existence and it had strict control over public issues and what is happening now when there is liberalisation. The liberalisation has resulted in a lot of fly-by-night operators coming into the market. Even the SEBI has allowed a lot of issues with premium. Now those shares have gone below par. Is there any proposal to make a comparative study of what was happening when the Controller of Capital Issues was in existence and the effect of liberalisation?

SHRI. P. CHIDAMBARAM: Sir, I think the movement away from the Controller of Capital Issues to the SEBI was a right move. I don't think the hon. Member from Tamil Nadu disagrees with that position. Have there been fly-by-night operators? Now, the SEBI did a study of issues which came into the market at a premium and that study reveals that all but six companies are in the market, their shares are listed in the market, may be, they are not traded heavily, may be, they are very thingly traded. Now they are doing a study on issues which came without a premium, issues which came at par. So, the general impression that fly-by-night operators came to the market and made issues and walked away with the investors' money, may not be correct. But I am not willing to draw a final conclusion unless we see all the studies when they are completed. But the fact is that share prices have dipped sharply and the market cap of money of these companies has been reduced substantially. The market cap of the whole market has been reduced. I do not think that this stems from the fact whether the Controller of Capital issues was the authority to grant permission to the issues or the SEBI is the authrity to grant permission to the issues. As I said, markets are driven by sentiment, markets discount a number of factors, political factors and economic factors. I think the players must get their act together to bring the retail investor back to the market. But when these studies are made available by the SEBI to the Government, I would certainly share with hon. Members about companies which came to the market and how many were listed. I would certainly share this information with them.

SHRI GURUDAS DAS GUPTA: Mr Chairman, Sir, the Hon. Finance Minister has stated that the Government is not in a position or the Finance Minister himself is not in a position to find out why there has been almost a collapse in the stock market, that is, the secondary market. But while replying he has kindly referred to the lack of confidence among the small investors. He also said that the players should come around and revive the market. I understand his confidence in the free-play of the market forces whether we agree him or not in his philosphical commitment. But the fact remains that the decline or collapse of the stock market is really affecting the Indian economic growth. Not only the secondary market is affected, but it is well known that the primary market is also gravely affected. It is one of the reasons why the policy of disinvestment of the Government is not yielding desired results. Therefore, will the Minister agree

that lack of confidence among the small investors is mainly due to unhindered delinquency in the stock market, Government's failure to combat the same and also in a way reapperance of players like Harshad Mehta?

Will he agree that this unhindered deliquency creates a situation of uncertainty and does affect seriously the morale of the small investors?

SHRI P. CHIDAMBARAM: Sir, I cannot agree with a statement of that kind. Please remember that this year the Sensex touched a figure of a little over 4,000 in the month of June. Now what has happened since June to draw any conclusion that there has been an increase in unhindered deliquency? I think the stock markets are driven by sentiment, psychology, stock marketing discount a number of factors, among them political factors.

SHRI GURUDAS DAS GUPTA: What is the sentimentality he is referring to off and on? *(Interruptions)*.

MR. CHAIRMAN: Sentimental market.

SHRI GURUDAS DAS GUPTA: What is 'sentimental' Is it the psychological factor? Does he refer to the psychological factor?

SHRI P. CHIDAMBARAM: Markets discount a number of factors-political factors and economic factors. Markets respond to what is happening around them. Markets are not driven by any formula or any equation. When we announce a package of incentives or what are termed 'concessions' to investors, yet the markets do not rise. Half-yearly results of companies come. Some do well and some do not so well. So, markets respond to that. When we do nothing for some time, for a period of two weeks or three weeks, when no major decisions are taken, we find that sometimes markets rise and sometimes fall. One cannot really predict the behaviour of markets. The most important thing that I have learnt is that the small investor is still hesitant to invest in the stock market. He is discounting political factors and economic factors in his mind. He has got other instruments where he can invest. Other instruments give attractive returns. Particularly, debt instruments give attractive returns. But when quality paper comes into the market, he is willing to come and invest. When the IDBI, the IFCI and the ICICI came into the market only two months ago, with quality papers, they were oversubscribed. The investor is not shying away from every kind of paper. The investor responds to good quality paper. The investor is apprehensive, generally, about the quality of the paper that comes into the market and he is also being influenced by the general sentiment that prevails in the market. That is the best I can say. But I sincerely hope that the sentiment will improve and the investors will come back to the market. The primary responsibility of luring the small investor back to the market lies with the players—the stock brokers, the merchant bankers and the institutional investors. These are the ones who must lure the small investor back to the market.

MR. CHAIRMAN: Question No. 162.

Development of airports for international Operations

*162. DR. ALLADI P. RAJKUMAR: SHRIMATI RENUKA CHOWDHURY†:

Will the Minister of CIVIL AVIATION be pleased to state;

(a) whether Government propose to develop airports in various parts of the country for internationl operations;

(b) if so, the details thereof; and

(c) the target set up for completion of the airports with modernisation of all traffic services?

THE MINISTER OF CIVIL AVIATION (SHRI C. M. IBRAHIM):

†The Question was actually asked in the floor of the House by Shrimati Renuka Chowdhury.